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SUBJECT: Argentina Economic and Financial Review, December 11-17, 2009

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11. (U) Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period December 11-17, 2009. The unclassified email version of this report includes tables and charts tracking Argentine economic developments. Contact Econ OMS Megan Walton at WaltonM@state.gov to be included on the email distribution list. This document is sensitive but unclassified. It should not be disseminated outside of USG channels or in any public forum without the written concurrence of the originator. It should not be posted on the internet.

The GoA creates a BCRA reserves fund to guarantee 2010 debt payments

12. (SBU) On December 14, President Cristina Fernandez de Kirchner and Economy Minister Boudou announced the creation of a fund with 37% of the BCRA's "excess reserves" (about \$6.6 billion) for the purpose of covering 2010 GoA debt payments, both interest and principal. BCRA reserves stand at \$ 47.2 billion and "excess reserves" are defined as the amount of reserves that exceed the monetary base (cash in circulation plus liquidity requirements). The new fund is called the "Bicentennial Fund for Stability and Reduced Indebtedness." It will be used to guarantee external debt service payments, which, according to the President, should clear any doubts about whether the country will be able to meet its 2010 external debt service obligations to bondholders and multilateral institutions. It also demonstrates the GoA's willingness to pay. On December 15, the GoA published in the Official Gazette the decree (N 2010) delineating some of the implementation details surrounding the creation of the Bicentennial Fund. The decree noted that the GoA will issue a non-tradable 10-year bullet bond to the BCRA in exchange for the \$6.6 billion in reserves, paying an interest rate similar to the one earned by BCRA reserves with a cap of Libor minus 1% (below market rates). It is yet unclear whether this fund will act just as a guarantee or whether the government intends to use the funds to actually pay external debt service.

13. (SBU) According to most analysts, using BCRA reserves to pay GoA obligations is not a positive development since this measure weakens the BCRA balance sheet and compromises its independence.

It also lessens the need for the GoA to control expenditure growth by providing the resources to enable a loose fiscal policy. Initially, however, markets reacted positively and tightened the Argentine sovereign spread, viewing the creation of the fund as a solid guarantee against a major credit event in 2010. (For further details and analysis see Buenos Aires 1291.)

The GoA reportedly to launch debt exchange in mid-January

¶4. (SBU) Minister of Economy Amado Boudou reportedly stated that the GoA will file the necessary paperwork with the US Securities and Exchange Commission (SEC) to make a formal restructuring offer to holdouts who did not participate in the 2005 debt restructuring. According to local press reports, the GoA expects to receive SEC clearance by January 12 and to unveil the formal offer by mid-January. An embassy banking sector contact told econ officers that, according to Secretary of Finance Hernan Lorenzino, former President Nestor Kirchner supports moving forward with the debt exchange offer. He added that the deal should be completed by the end of February.

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¶5. (SBU) On December 17, local press reports said that, according to GoA sources, the GoA intends to toughen the terms of the holdout deal, lowering the overall value of the offer from a projected \$50-52 per \$100 of face value to approximately \$46. The reports indicate that the higher offer was considered to be unnecessarily generous.

The GoA to auction early payments on debt

¶6. (SBU) Minister of Economy Amado Boudou stated December 15 that the GoA will conduct an auction for the early payment of some scheduled debt service in 2010, including the dollar denominated Boden 2012, which has a heavy amortization schedule of about \$2.2 billion over the next three years, and some Guaranteed Loans (PGs) worth about \$530 million. According to the Minister, the GoA would only accept early payment proposals that offer an attractive discount. The payment is supposed to come from the \$6.6 billion fund announced December 14 (see first item above). If this auction does take place, it would indicate that the Bicentennial Fund would not just serve as a guarantee for 2010 debt service payments but would also be used to actually fund debt payments.

The GoA announces tax moratorium in attempt to increase 2010 revenues

¶7. (SBU) On December 16, Minister of Economy Amado Boudou and AFIP

(Tax Revenue Agency) Director Ricardo Echegaray announced that the GoA will launch a tax moratorium for unpaid taxes for the period between January 1, 2008 and October 31, 2009. The GoA will offer a two-year payment plan with an interest rate of 9.6%. With this measure, the GoA seeks to increase 2010 tax collection by ARP 8.5 billion from about 800,000 individuals and companies. However, according to private estimates, the plan will raise only ARP 6 billion over the next two years. In a press conference, the Minister stated that this plan is a countercyclical measure that will allow companies to start recovering without being burdened by past debts.

November CPI up 0.8% m-o-m

18. (SBU) National statistics agency INDEC announced December 11 that the November CPI increased 0.8% m-o-m, similar to October's increase and in line with what most private analysts expected. As during the past several months, some observers have discerned a gradual trend towards convergence between INDEC's inflation numbers and actual inflation, as measured by private analysts. Some view this as a possible indication that the GoA has decided to gradually improve the accuracy of its reporting.

19. (SBU) Inflationary pressures in November were widespread, with the highest increases in the prices of: food and beverages (1.1%), clothing (1.1%), other goods and services (1.0%), and education

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(0.8%). The lowest price increases were in housing and transportation, and communications, both of which increased 0.4%. According to INDEC, the accumulated CPI increase for the first eleven months of the year was 6.7%, compared to private estimates of about 15%. Inflationary pressures are accelerating as many analysts are revising their 2009 CPI estimates upwards to 15% or a bit higher for the year. For 2010, analysts' estimates of inflation range from 16-20%.

Balance of Trade Surplus Increases

10. (SBU) Through November of this year, the Argentine trade balance is in surplus by \$15.7 billion, a 32% increase over the \$11.2 billion surplus of 2008, according to INDEC figures. In the first eight months of the year, exports fell 24%, while imports fell by an even greater 39%. In November, the trade surplus was \$1.2 billion, an increase of 73% over the \$745 million surplus recorded in November 2008. GoA November export figures reverse the negative year-on-year trend in exports, which for the month are up 1% over November 2008. November imports were down 12% from November 2008, also indicating an increasingly positive trend.
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